

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Consideration)	
of the Adoption of Energy Policy Act of)	
2005 Standards Regarding Net Metering,)	UTILITY DIVISION
Fuel Diversity, Fossil Fuel Generation)	
Efficiency, Smart Metering, and)	DOCKET NO. N2006.5.60
Interconnection)	

COMMENTS OF THE MONTANA CONSUMER COUNSEL

The Energy Act of 2006 requires the Commission to consider the adoption of certain standards, including a requirement that the utility offer net metering; a requirement for a fuel diversity standard; a requirement for fossil generation efficiency; and a requirement to offer customers smart meters and an opportunity to participate in real time markets, to any customer who chooses them.

All of these standards are worth considering, but only in context of some overriding goals. These goals are affordable rates and acceptable risk for ratepayers, while ensuring the long-term viability of the utility.

Net Metering

Net Metering has been promoted as a way of encouraging customers to install on-site generation on the customer side of the meter, in amounts that capture potential opportunities on their premises that may be larger than their immediate needs. At times when on-site generation is producing less than customer needs, the meter would operate in a normal manner and measure the customer's usage of utility-supplied power. At times when the on-site generation is producing more than the customer is consuming, the excess would be fed back through the meter into the utility system. The meter would accumulate the net consumption or net generation. The Montana legislature has

previously passed a net metering requirement that allows the customer to carry forward excess generation up to the start of the next quarter-year, after which he loses any accumulated credit, and requires the customer to pay customer-related charges. Montana also requires the Commission to determine if there are metering requirements beyond those of traditional metering, and how to allocate costs. The legislation stated its preference for imposing any such costs on the net-metered customer, rather than spreading them across all ratepayers. Further, the legislature required that all necessary equipment for safety and reliability must be installed at customer expense.

The Montana requirements appear insufficient as written to protect non-participants from having to subsidize the activities of participants. First, the rate includes distribution and transmission costs that may be unrelated to energy usage. Second, the customer's power deliveries may in fact impose transmission and distribution costs on the utility. Finally, because the on-site generation is credited at the full energy rate regardless of the value of power at the time of delivery, there may be times when the value of the power delivered may be less than the price seen by the customer. It is simply not possible, given these factors, to know whether all customers are helped or hurt by net metering.

The Federal net metering standard is silent on details and in fact provides an out for the Commission if, as in Montana, the legislature has already voted on the implementation of a net metering standard. If the Commission chooses to address the net metering issue, it should evaluate the impact of net metering on the costs (and benefits) to non-participants and whether separate metering and rates are appropriate to ensure that net-metering at a minimum does not impose net additional costs on non-participants.

Fuel Diversity Standard

Fuel diversity is desirable because it mitigates risk for a utility's customers by reducing the vulnerability to a sharp increase in the cost of any single fuel source. The Commission has already addressed this issue in the treatment of risk in default supply portfolio guidelines, and no further action is needed.

Fossil Generation Efficiency

Cost-effective efficiency improvements at Montana's coal-fired generating plants are in the interests of the owners of the plants and are clearly something they should pursue on their own initiative. However, the Fossil Generation Efficiency Standard does not appear relevant to Northwestern Energy's situation at the present time because (a) the Default Supply utility currently does not own any generation; (b) the Utility's fractional share in Colstrip 4 is non-jurisdictional; and (c) the Utility would be unable to implement, on its own, a 10-year plan to improve efficiency given the need to work with the other owners. A plan to improve efficiency would be a good idea but one that would have to involve cooperation between one jurisdictional utility, three utilities subject to other commissions' jurisdiction and one non-jurisdictional entity. Nevertheless, a generation efficiency standard that applies only to jurisdictional vertically-integrated utilities could be worth pursuing, subject to the caveat that the goal is not efficiency for its own sake, but rather, minimization of long run costs to ratepayers.

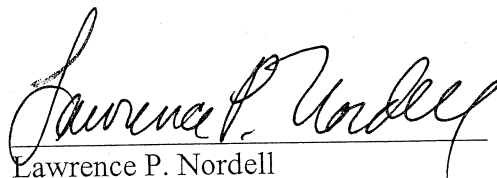
Smart Metering

Smart metering is a concept that is theoretically appealing, in that it would convey to customers the real-time value of their consumption, allow them to adjust their consumption accordingly either by shifting it where appropriate from high valued to lower valued time periods or by simply reducing consumption to benefit from high market prices. From a societal perspective smart metering should result in a move toward economic optimality, and from a utility perspective it could result in lower portfolio costs. There are several issues, though, that should be given important consideration. First is the cost of metering. If the metering costs are expensive, some customers whose potential benefits are great enough might still benefit from adopting a smart meter. However, if the cost of metering were spread across all customers, there is a great risk of waste and a need to limit meters to those who will use them and provide the greatest system benefits. Second is the friction cost to customers of watching real time prices, calculating the value of their consumption, and shifting the consumption activities. If the friction costs to customers are significant, participation will suffer and use of the meters may suffer even after they are installed. Finally, the implementation costs to the

utility may also be significant and may not be taken into consideration by individual customers if implementation costs are spread over all ratepayers. MCC recommends the Commission pursue the following process:

1. Request each electric utility to estimate the costs of metering and the costs of implementation, as well as the customer characteristics likely to make smart metering worth pursuing for the individual customer; and to estimate the likely participation rates and the benefits to the customers and to the utility.
2. Evaluate the costs and benefits to the utility, to participants, and to non-participants.
3. If the Commission decides to pursue a smart metering initiative, it should limit the recovery of metering costs and administrative costs from ratepayers in general to an amount commensurate with likely system benefits that would be received by all ratepayers, not just participants.

Respectfully submitted this 16th day of June, 2006.



Lawrence P. Nordell
Economist
Montana Consumer Counsel
616 Helena Avenue
P.O. Box 201703
Helena, MT 59620-1703